

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: June 5, 2000

Recommended Action:

Approve the report of the Banking Committee.

Executive Summary:

The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on June 14, 2000, the Banking Committee is scheduled to consider the approval of following: the minutes from the May 2000 Banking Committee meeting; the 28E Agreement - Intergovernmental Agreement Regarding Mobile Burn Unit; the renewal of contracts with bond counsel and financial advisor; and the master lease financing for Lakeside Laboratory housing subject to the Board's approval to purchase and relocate such housing (G.D. 8g).

The Banking Committee is also scheduled to receive the Investment and Cash Management Reports for the Quarter Ending March 31, 2000.

Background:

Approve Minutes of the May 17, 2000, Banking Committee Meeting

The minutes of the meeting will be included with the materials for the Banking Committee meeting.

28E Agreement - Intergovernmental Agreement Regarding Mobile Burn Unit

In July 1999, the Banking Committee and the Board authorized Iowa State University to use the Board's master lease financing in the amount of \$189,000 to purchase a live-fire simulation trailer for fire fighter training for the Fire Service Institute.

The 2000 General Assembly passed and the Governor signed HF 2492 which moves the Fire Service Institute from Iowa State University to the Department of Public Safety. The legislation provides that the Department of Public Safety and the Board of Regents are to enter into a 28E Agreement (Iowa Code authorization allowing joint exercise of governmental powers) regarding payment of the outstanding financial obligation for the trailer, which totals \$172,318 as of May 31, 2000.

The proposed 28E Agreement was prepared by Ahlers Law Firm, and reviewed and approved, as to form, by the Attorney General's Office. The Board is asked to approve the agreement.

Investment and Cash Management Reports for the Quarter Ending March 31, 2000

The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds.

As of March 31, 2000, the market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$838.2 million. The university operating investment portfolios performed in line with the comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$246.5 million. The quarterly, combined investment manager returns for the University of Iowa (excluding the quasi-endowments) and Iowa State University endowment portfolios were 8.5% and 7.0% respectively. The blended asset allocation benchmark posted returns of 2.3% for the same period.

The Wilshire report indicates that Invesco's endowment equity segment under-performed its benchmark while its fixed income segment tracked its benchmark. Seneca exceeded the Wilshire Mid Cap Growth Index and the S&P 400 Mid Cap Index. In its third full quarter as the Regent international investment manager, Sanford Bernstein under-performed its benchmark.

As of December 31, 1999, the University of Iowa's endowment portfolio was outside the target ranges as set forth in the Board policy for manager allocation and domestic equity allocation by \$5 million. The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter. Midway through the quarter ending March 31, 2000, the University of Iowa initiated rebalancing efforts and transferred \$8.5 million to get its portfolio within the required ranges. Because of the continued success of Seneca, the University of Iowa's portfolio is still slightly outside the Board established target ranges. The University plans to rebalance again during the quarter ending June 30, 2000.

For the quarter ended March 31, 2000, university internal auditors verified that investment purchases of the institutional portfolios and holdings were in compliance with respective Board and institutional investment policies.

Renewal of Contracts with Bond Counsel and Financial Advisor

The current contract with the Board's bond counsel, Ahlers Law Firm, and the current contract with Springsted, Inc., the Board's financial advisor, commenced on September 1, 1996, for a three-year initial period, with provision for annual renewal thereafter through August 31, 2001, subject to mutual consent of the parties.

In November 1996, the Board authorized an addendum to the contract with Springsted for continuing disclosure filings required by the Securities and Exchange Commission and also authorized the Executive Director of the Board of Regents to add future bond issuances requiring continuing disclosure filings to the addendum as necessary.

In February 1998, the Board authorized an addendum to the contracts with Ahlers Law Firm and Springsted to transfer the responsibility for rebate calculation services from Ahlers Law Firm to Springsted. This was precipitated when the key employee performing rebate services at Ahlers Law Firm moved from the employ of Ahlers Law Firm to Springsted. Springsted provides rebate services to a number of its other clients and agreed to provide the services at the same cost as in the Ahlers original contract. FY 2000 year-to-date amounts billed from Springsted and Ahlers pursuant to these contracts are detailed in the Banking Committee materials.

The Board is asked to approve all terms of the amended contracts be extended through the annual renewal period ending August 31, 2001.

Statutory provisions and Board policy require the solicitation of bids for bond counsel and financial advisor every five years. During the next year, the Board Office will work with the institutions to develop Requests for Proposals for both the Board's bond counsel and financial advisor in accordance with Board policy.

Master Lease Financing – Lakeside Laboratory Housing

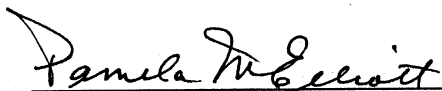
The Board is requested to authorize Iowa State University to utilize master lease financing in the amount of \$127,000 for the purchase of housing units and their relocation to Lakeside Laboratory.

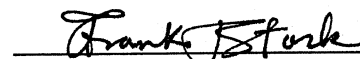
The Board is being asked in G.D. 8g – Lakeside Laboratory Preliminary General Fund Operating Budget for FY 2001 – to approve the purchase and relocation to Iowa Lakeside Laboratory of three sections of a motel complex in Spencer, Iowa, subject to approval of the financing. The three sections, which total 14 rooms,

would more than double Lakeside Laboratory's winterized housing. The estimated cost of purchasing the motel units, moving them to the Laboratory, constructing the foundations, demolishing the existing buildings and hooking up utilities is approximately \$147,000.

The Lakeside Laboratory Coordinating Committee has endorsed a business plan to acquire the units. Of the total estimated cost of \$147,000, the sum of \$20,000 would be provided by currently available housing revenues. Iowa State University, as the administrative university for the Laboratory, has recommended that the remaining funds be borrowed through the Board's master lease agreement with Wells Fargo Brokerage Services, LLC (previously known as Norwest Investment Services).

Semi-annual lease payments are estimated at \$8,495 based upon a lease term of 10 years and an interest rate of 6.11%. Repayment would be made with housing revenues.


Pamela M. Elliott

Approved: 
Frank J. Stork